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INFORMED BUDGETEER

THE NEW (FOR NOW) 302(b)S

- In the *Bulletin's* effort to keep our readers up to date with the FY 2000 302(b) allocations below is the revised table reflecting changes made this week. With just another week and a half to finish the bills before the continuing resolution expires, keep your eyes peeled for more changes.

Comparison of 302(b) Allocation for FY2000
($ in Billions)

Subcommittee and Status[B]	Senate BA	Senate OT	House BA	House OT	Senate vs. House BA	Senate vs. House OT
Agriculture: C	14.0	14.3	13.9	14.3	0.1	-0.1
Commerce	30.7	30.7	35.8	34.9	-5.0	-4.1
Defense	255.2	249.7	267.7	259.1	-12.5	-9.4
DC: V	0.4	0.4	0.5	0.4	*	-0.1
Energy-Water: E	21.3	20.9	20.2	20.1	1.1	0.7
Foreign Ops: S	12.7	13.2	12.6	13.2	0.1	*
Interior	13.9	14.3	13.9	14.4	*	-0.1
Labor-HHS	84.2	84.4	73.0	75.1	11.1	9.3
Legislative: E	2.5	2.5	2.5	2.5	*	*
Mil Con: E	8.4	8.8	8.4	8.8	- -	- -
Transportation: S	12.0	42.9	12.4	43.4	-0.4	-0.5
Treasury: E	13.7	14.1	13.7	14.1	- -	*
VA-HUD	69.6	82.3	68.6	82.0	1.0	0.3
Deficiencies	- -	- -	- -	- -	- -	- -
Total[A]	538.6	578.4	543.1	582.5	-4.5	-4.1

*Less than $50 million. [A]The House has a higher total allocation because it declares the Census an emergency. [B]V= vetoed, E=enacted, S=cleared for President's Signature, C=Conference Completed.

PRESIDENT'S TOBACCO TAX PROPOSAL

- In his 2000 budget, the President recommends a package of tax changes resulting in a net tax increase of $96 billion over the next ten years. By far the biggest single tax increase is President Clinton's $70 billion hike in tobacco excise taxes.

- The current federal excise tax on cigarettes equals $0.24 per pack. The tax is scheduled to increase to $0.34 per pack on January 1, 2000 and to $.39 per pack on January 1, 2002.

- The President proposes to accelerate the current law increase and to add an additional $0.55 per pack tax, making the total federal tax on a pack of cigarettes $0.94 effective October 1, 1999. The President's budget uses increased tobacco excise tax revenues as an offset for additional discretionary spending.

- For the record, Scorekeeping rule #3, used by CBO, OMB and Budget Committees, states that: "Substantive changes to or restrictions on *entitlement* law or other *mandatory* spending law in appropriations laws will be scored against the Appropriations Committee's 302(b) allocations". Tobacco taxes are not entitlement or mandatory spending.

- Reasonable people may present convincing arguments as to whether it is a good idea or a bad idea to raise tobacco excise taxes, but one fact is undeniable -- tobacco taxes are borne by the poor the most.

- How much of the excise tax burden currently falls on the poor? A January 1999 Tax Foundation study found that 53% of federal tobacco excise taxes paid in 1998 were collected from people with AGI under $30,000. The same study found that people with AGI under $30,000 paid 36% of federal alcohol taxes, 34% of federal fuel taxes, and 39% of federal telephone service taxes.

- The Joint Committee on Taxation (JCT) recently produced estimates of the distributional change in tax liabilities resulting from the President's tobacco tax increase. Taxpayers with less than $10,000 in income would see their total federal taxes rise by 15 percent. Their effective tax rate would rise from 6.4 percent to 7.4 percent.

- Contrast this with taxpayers with income over $40,000, who would see their taxes rise by less than one percent and their effective tax rates unchanged.

Distributional Effects of President's Proposal to Increase Tobacco Excise Taxes
(Calendar Year 2000)

Income Category	Change in federal taxes: Millions	Change in federal taxes: Percent	Effective tax rate (%): Present law	Effective tax rate (%): Proposal
Less than $10,000	$	15.0	6.5	7.4
10,000-20,000	910	4.1	8.1	8.4
20,000-30,000	1,332	1.7	15.4	15.7
30,000-40,000	1,391	1.2	17.8	18.1
40,000-50,000	1,252	0.7	19.6	19.8
50,000-75,000	861	0.5	21.6	21.7
75,000-100,000	1,404	0.3	24.2	14.2
100,000-200,000	568	*	26.3	16.4
200,000 and over	114	*	29.0	29.0
Total, Taxpayers	14	0.5	22.2	22.3
	7,847			

SOURCE: Joint Committee on Taxation; *Less than 0.005%

SOCIAL SECURITY & IMMIGRATION

- The 1999 Social Security Trustees' Report estimated the trust funds would be depleted in 2034, and it estimated the actuarial deficit to be 2.07 percent of taxable payroll.

- The key reason for this is that the actuaries project that , between 2000 and 2030, the number of persons over age 65 will increase from 35.4 million to 68.4 million, while the number of persons under age 20 — the future workforce — will only increase from 81.6 million to 83.9 million. **These future retirees will live longer and collect more benefits.**

- Over time, the actuaries project the number of workers to beneficiaries to fall from 3.4 to 1.8. One factor in this equation that the government directly controls is immigration.

- In the intermediate set of projections, the Social Security Trustees assume that net immigration into the country will remain fixed at 900,000 per year for 75 years, even though the overall population will increase by about one-third over that period. The 900,000 estimate is the current statutory limit on legal immigration.

- In general, an increase in net immigration will improve the solvency of Social Security, as immigrants will be disproportionately workers, not retirees.

- In fact, the actuaries estimate that each additional 100,000 immigrants per year would reduce the projected actuarial deficit by 0.07 percent of taxable payroll.

Immigration's effect on the Social Security deficit
(Actuarial Deficit as % of taxable payroll)

Assumed Net Immigration	Actuarial Deficit
750,000	2.18
900,000 (current assumption)	2.07
1,150,00	1.90

THINKING ABOUT THE SURPLUS

- The current debate about how much appropriations bills may be dipping into the Social Security surplus is particularly interesting when one adds to the mix how the estimates of that surplus is likely to change. Based on recent history, changes in budget estimates are likely to give us a comfortable margin by the time FY 2000 comes to a close.

- Looking at budget resolution figures since 1993, when President Clinton took office, actual deficits (or surpluses) have been more favorable by an average of 5.2% annually.

Comparison of Budget Resolutions & Actual Totals
FY 1993-1998*, $ in billions

	Average Difference	Percent
Revenues		
Policy	3	
Economics	22	
Technical	21	
Total	46	2.8%
Outlays		
Policy	12	
Economics	-6	
Technical	-42	
Total	-35	-2.4%
Deficit		
Policy	-9	
Economics	28	
Technical	62	
Total	81	5.2%

*Actuals from Department of Treasury's monthly budget statement.

- There are three general classifications of reestimates: policy, economics, and technical adjustments. Policy reestimates reflect Congressional action (or inaction) relative to budget resolution assumptions. Revenues and outlays have exceeded targets by an average of $3 billion and $12 billion, respectively, resulting in net deficit increases of $9 billion.

- Economic reestimates are based on changes in indicators, mainly inflation-related indices such as the CPI. For example, when the CPI is lower than assumed, COLAs for retirement programs are lower.

- The largest category of reestimates is labeled "technical". This is where changes in spending and revenues cannot be traced to legislative or economic assumptions. Over the last six years, revenues have been underestimated by an average of $21 billion and outlays overestimated by $42 billion, for a total reestimate of $62 billion.

- What does this say about the social security surplus? Any change in social security outlays or revenues is likely due to economics, because program levels are stable in terms of beneficiaries and benefit levels.

- If we leave economics out of the picture and assume we have no tax changes this year, an overage on outlays due to legislative action, even at the 1999 level of $22 billion, is likely to be more than covered by technical reestimates.

JUST THE FACTS, MA'AM

✎ Editor's Note: There is always a lot of misinformation about the budget bandied about on the floor, in press conferences, and in the news. In an effort to keep our budgeteer readers correctly "informed", this is the first in what will be a recurring fact checking section in the *Bulletin.*

- During a Senate floor debate on October 6, Senator Kennedy stated that there was $4.0 trillion in tax expenditures that the Republicans could look at for offsets.
- The last estimate we had for tax expenditures this year was $582 billion, not anywhere close to $4.0 trillion. Our figure comes from "Tax Expenditures: Compendium of Background Materials on Individual Provisions," December 1998, Senate Budget Committee print prepared by the Congressional Research Service.

- The four largest tax expenditures make up 40 percent of the total -- the exclusion from income of pension contributions and earnings, the exclusion from income of employer contributions for health insurance, the mortgage interest deduction and the deduction for state and local income and personal property taxes. Republicans are unlikely to find offsets here.

- The newest tax expenditures are the child tax credit and the HOPE and lifetime learning education tax credits. Again, Republicans are unlikely to find offsets here.

ECONOMICS

COULD GOLD BE A GIRL'S BEST FRIEND?

- After years of weak performance, gold has surged in value over the last two weeks – from $260 an ounce to nearly $340 before settling in at its present $320 level. This stunning rally owes to several different factors, but the immediate catalyst was the recent G7 and IMF/World Bank meeting when two crucial announcements were made:

1. 15 European central banks released a statement pledging not to sell any more of their gold reserves for five years, beyond what they had already announced.

2. The IMF said it would not sell gold to finance debt-writeoffs.

- These announcements were crucial since they suggested a reversal of recent official sales trends. Over the last several years, central banks had stepped up their gold sales in order to shift more of their reserves into interest-bearing investments. In particular, the Bank of England announced plans last spring to sell off roughly half of their gold reserves over time. Gold prices plunged to record lows just above $250/oz in response to the UK's actions.

- G7 then compounded gold's woes by proposing to sell IMF gold reserves as well, in order to fund a debt-write off plan for impoverished countries.

- Gold producers were quick to condemn these actions and eventually forced the G7 to backtrack on both European central bank and IMF sales. Gold prices shot up immediately in response.

- However, there is also a more fundamental reason behind gold's recent surge. As the global economy recovers, there has been a generalized rise in commodity prices due to increased industrial demand and rekindled interest in inflation hedges. Gold did not participate in the initial commodity rally, due to concerns over central bank sales. However, now that this threat has been removed, fundamental forces can re-assert themselves. This suggests that a good portion of gold's recent gains should be sustainable.

CALENDAR

The *Bulletin* regrets to announce that the Senate Budget Committee hearings commemorating the 25th Anniversary of the Congressional Budget Act will be canceled due to scheduling conflicts. The hearings planned for October 19-20 have not been rescheduled at this time.